

**OSAGE MUNICIPAL UTILITIES  
A COMPONENT UNIT OF THE CITY OF OSAGE  
INDEPENDENT AUDITORS' REPORTS  
FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS  
DECEMBER 31, 2005 AND 2004**

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Osage Municipal Utilities  
A Component Unit of the City of Osage

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Gordon Anderson	Trustee-Chairman	Dec 2006
Steve Swenson	Trustee	Dec 2008
Harlan Bremer	Trustee	Dec 2009
Royce Tack	Trustee	Dec 2009
Doug Lang	Trustee	Dec 2010
Dennis Fannin	General Manager	Indefinite
Paula Ross	Board Secretary	Indefinite
Jane Michels	Cashier	Indefinite
Beverly Miller	Treasurer	Jan 2006

Osage Municipal Utilities  
A Component Unit of the City of Osage

City of Osage

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steven Cooper	Mayor	Jan 2008
Kevin Palsic	Council Member	Jan 2006
Jim Werner	Council Member	Jan 2006
Rick Bodensteiner	Council Member	Jan 2006
Allan Smalley	Council Member	Jan 2008
Joel Voaklander	Council Member	Jan 2008
Brian Adams	Council Member	Jan 2008
Cathy Penney	City Clerk	Jan 2006
Beverly Miller	City Treasurer	Jan 2006
Richard Gross	City Attorney	Jan 2006
Jerry Dunlay	Director of Public Works	Jan 2006
John LaCoste	Park Commissioner	Jan 2006
Don Fox	Park Commissioner	Jan 2008
John Michels	Park Commissioner	Jan 2010
Herb Wright	Library Trustee	Jul 2006
Kevin Kolbet	Library Trustee	Jul 2006
Johanna Anderson	Library Trustee	Jul 2007
Della Cordle	Library Trustee	Jul 2008
Mary Fox	Library Trustee	Jul 2008
Tom Thome	Library Trustee	Jul 2011
Mary Ann Carmody	Library Trustee	Jul 2011

# **L**INES MURPHY & COMPANY, P.L.C.

**M** Certified Public Accountants  
625 Main St.  
Osage, IA 50461-1307

Ph. 641-732-5841  
Fax 641-732-5193

## Independent Auditors' Report

To the Board of Trustees Osage Municipal Utilities  
A Component Unit of the City of Osage

We have audited the accompanying component unit financial statements of the business type activities, each major fund and the aggregate remaining fund information of the Osage Municipal Utilities, a component unit of the City of Osage, Iowa, as of and for the years ended December 31, 2005 and 2004, listed as exhibits in the table of contents of this report. These component unit financial statements are the responsibility of the Utilities' management. Our responsibility is to express opinions on these component unit financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the component unit financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the component unit financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall component unit financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the aforementioned component unit financial statements present fairly, in all material respects, the financial position of the Osage Municipal Utilities and the results of its operations and the cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated January 23, 2006 on our consideration of the Osage Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, and contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 5 through 10 and 25 through 27 are not required parts of the component unit financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the aforementioned component unit financial statements taken as a whole. The supplemental information included in Schedules 1 through 11, is presented for purposes of additional analysis and is not a required part of the component unit financial statements. Such information, except for that portion marked "unaudited" (Schedules 4, 5, 6, 7, 8, 9, 10 and 11) on which we express no opinion, has been subjected to the auditing procedures applied in our audit of the aforementioned component unit financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned component unit financial statements taken as a whole.

Lines Murphy & Company, P.L.C.  
Osage, Iowa  
January 23, 2006

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

The Osage Municipal Utilities (OMU) provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal years ended December 31, 2005 and 2004. We encourage readers to consider this information in conjunction with the component unit financial statements, which follow.

### **2005 FINANCIAL HIGHLIGHTS**

- Operating revenues of the Utilities' business type activities increased 11.9%, or approximately \$841,000, from fiscal 2004 to fiscal 2005.
- Operating expenses increased 14.0%, or approximately \$916,000, in fiscal 2005 from fiscal 2004.
- The Utilities' total net assets increased 3.8%, or approximately \$429,000, from December 31, 2004 to December 31, 2005. Of this amount, the net assets of the Light and Power Division increased approximately \$215,000, the net assets of the Gas Division increased by approximately \$63,000, and the net assets of the Telecom Division increased \$151,000.
- 2005 investment income was 15% greater than in 2004 due to earning a higher rate of return and higher cash balances.

### **Electric Utility Results of Operations:**

Financial results for 2005 once again exceeded expectations. Net income recorded for 2005 was more than \$215,000 compared to budgeted net income of just under \$58,000. Retail electric sales were more than \$91,000 greater than in 2004, due primarily to a 3.5% increase in kWh sales. The Electric Utility, as owner of the new broadband infrastructure, recognized operating lease income of more than \$121,000 from the Communications Utility for use of the system.

Electric Utility total expenses for 2005 were higher by almost \$160,000, or 6% more than in 2004. More than half of the increase in operating expenses can be attributed to a more than 8% increase in the wholesale cost of purchased power. As in 2004, OMU recorded more than \$46,000 as the value of services-in-kind provided to the City of Osage during 2005.

### **Gas Utility Results of Operations:**

The Gas Utility ended the years 2005 and 2004 with positive changes in net assets (\$23,524 in 2005 and \$66,101 in 2004). While revenue from retail natural gas sales increased by more than \$623,000, or 23.6% over the previous year, the wholesale cost of natural gas, representing more than 80% of total operating expenses, rose by almost \$649,000, or 30% over 2004. Osage residents consumed about 2% less natural gas than in the previous year. OMU's largest industrial customers accounted for 25% of total 2005 natural gas sales.

The expense of maintaining the gas distribution system rose by only 5% from 2004. As noted above for the Electric Utility, OMU has recorded for the Gas Utility a charge of almost \$14,000 as the value of services-in-kind contributed to the City of Osage.

## **Communications Utility Results of Operations:**

Calendar year 2005 represented only the third full year of operations for the Communications Utility, ending the year with a net gain of \$151,392. Thanks to the continued growth in number of customers who subscribed to telephone, cable television and high speed internet services in 2005, total operating revenues were up by 3% from 2004, while operating expenses increased by 8%, due primarily to a 14% increase in distribution expenses.

During the third quarter of 2004, OMU responded to a competitive threat from a local wireless broadband service provider by offering wireless internet service to rural customers within a 10-mile radius of Osage. The response from our rural dial-up internet customers was immediate and enabled us to retain most of our rural customer base. However, the disproportionately high concentration of costs incurred to initiate service for the inrush of new wireless customers in 2005 resulted in Rural Wireless operating expenses exceeding operating revenues by more than \$37,000.

Despite a 25% drop in operating income in 2005 to \$157,350, we expect wireless internet customer growth to moderate in 2006, a result of achieving excellent market penetration quickly in 2005, and provide a more favorable correlation between operating revenues and expenses in 2006.

## **USING THIS ANNUAL REPORT**

The annual report consists of a series of component unit financial statements and other information as follows:

Management's Discussion and Analysis introduces the component unit financial statements and provides an analytical overview of the Utilities' financial activities. Because the Utilities is a component unit of the City of Osage, which maintains its books on a cash basis and has a different fiscal year end, the Government-wide Financial Statements are not included in this report. Copies of the primary government financial statements are located with the City Clerk of the City of Osage.

The Fund Financial Statements tell how business type services were financed in the short term as well as what remains for future spending.

Notes to Enterprise Fund Financial Statements provide additional information essential to a full understanding of the data provided in the component unit financial statements.

Required Supplementary Information further explains and supports the component unit financial statements with a comparison of the Utilities' budget for the year.

Other Supplementary Information provides detailed information about the nonmajor enterprise funds. In addition, it provides more detail on operating revenues and expenses, changes in capital assets, and information required by the bond resolution.

## **Basis of Accounting**

The Utilities maintain their financial records on the accrual basis of accounting and the component unit financial statements of the Utilities are prepared on that basis. Capital assets are recorded at cost and depreciated over their useful lives. Inventory is valued at lower of cost



(first-in, first-out) or market. More detail is provided in the Notes to Enterprise Fund Financial Statements.

## REPORTING THE UTILITIES' FINANCIAL ACTIVITIES

### *Fund Financial Statements*

Proprietary funds are used to account for the Utilities' enterprise activities.

The Utilities maintain two Enterprise Funds to provide separate information for the electric, and gas funds, considered to be major funds of the Utilities. Four Enterprise Funds are used to account for the Telecom Division of the Utilities. They are Internet, Cable, Telephony, and Rural Wireless and are included in the column titled Other Nonmajor Enterprise Funds.

The required component unit financial statements for accrual basis proprietary funds include a balance sheet or statement of net assets, a statement of revenues, expenses, and changes in net assets, and a statement of cash flows.

The condensed statement of net assets, shown below, shows how assets and liabilities have changed over the past two years. Capital assets, net of depreciation, decreased from 2004 to 2005. This decrease was due to the fact that the Utilities did not purchase enough new assets to keep up with depreciation. Total assets increased by approximately \$187,000. Total liabilities decreased by approximately \$242,000, which, when coupled with the increase in total assets, creates a \$429,000 increase in net assets from the prior year.

Condensed Statement of Net Assets		
	Years Ended December 31,	
	2005	2004
Current and Other Assets	\$ 5,608,431	\$ 4,986,700
Capital Assets	12,823,015	13,256,767
<b>Total Assets</b>	<b>\$ 18,431,446</b>	<b>\$ 18,243,467</b>
Long-term Liabilities	\$ 5,165,000	\$ 5,505,000
Other Liabilities	1,430,765	1,332,639
<b>Total Liabilities</b>	<b>\$ 6,595,765</b>	<b>\$ 6,837,639</b>
Net Assets:		
Reserved:		
Debt Service	\$ 546,025	\$ 215,000
Sinking Fund	114,875	148,022
System Improvement	100,000	100,000
Unreserved	11,074,781	10,942,806
<b>Total Net Assets</b>	<b>\$ 11,835,681</b>	<b>\$ 11,405,828</b>

## INDIVIDUAL MAJOR ENTERPRISE FUND ANALYSIS

As the Osage Municipal Utilities completed the year, its enterprise funds reported a combined fund balance of \$11,835,681, an increase of more than \$429,000 above last year's total of \$11,405,828. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The Light and Power Division net assets increased \$215,026 from the prior year to \$9,307,641. The net asset increase can be attributed to a healthy increase in operating income compared to operating expenses. Operating lease payments from the Communications Utility for use of the new broadband system owned by the Electric Utility, contributed to the increase in operating income. Future lease income from the Communications Utility, is intended to provide the Electric Utility with the means to repay the debt that was incurred to build the broadband infrastructure.
- The Gas Division net assets increased by \$63,435 to \$2,135,566 during the fiscal year. Cash and cash equivalents decreased by \$28,387 to \$793,624 because cash collected from customers did not quite keep pace with the exorbitant rise in cost of natural gas. Although the cost of natural gas increased by 30% in 2005, the average revenue collected per unit of natural gas sold rose by a nearly equivalent rate of 26%. Otherwise, other gas distribution expenses, exclusive of natural gas purchases, were held to a 5% increase. Also of some significance, more than \$36,000 of total operating revenue can be attributed to the favorable settlement of a rate case initiated by Northern Natural Gas.
- The Telecom Division net assets increased by \$151,392 to \$392,474 during the fiscal year. Cash and cash equivalents decreased by \$34,810 to \$475,188. This decrease resulted from OMU paying its first principal payment of \$35,000 on general obligation bonds outstanding. The number of telephone customers rose by 8% compared to the count at year-end 2004. Likewise, the number of cable television and high-speed Internet customers climbed by 4.6% and 30%, respectively.

The following analysis focuses on the change in net assets for the combined three divisions of the Osage Municipal Utilities.

	Changes in Net Assets of Enterprise Funds	
	Years ended December 31,	
	2005	2004
Operating Revenues	\$ 7,882,333	\$ 7,041,458
Operating Expenses	<u>7,459,675</u>	<u>6,543,391</u>
Operating Income	\$ 422,658	\$ 498,067
Net Non-Operating Revenues (Expenses)	1,385	(114,485)
Other Financing Sources (Uses)	<u>5,810</u>	<u>(8,361)</u>
Change in Net Assets	\$ 429,853	\$ 375,221
Net Assets-Beginning of Year	<u>11,405,828</u>	<u>11,030,607</u>
Net Assets-End of Year	<u>\$ 11,835,681</u>	<u>\$ 11,405,828</u>

## CAPITAL ASSETS

At December 31, 2005 the Utilities had invested \$12,823,015, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, generating equipment, machinery and equipment and telecommunications equipment. This represents a net decrease from last year of 3%. The decrease was due to depreciation charged to assets. Depreciation expense for the year was \$789,033.

The largest change in capital asset activity during the year was in Light and Power Division for acquisition of generating equipment and lines.

Capital Assets, Net of Depreciation				
	Light and Power Division December 31, 2005	Gas Division December 31, 2005	Telecom Division December 31, 2005	Total December 31, 2005
Land	\$ 81,525	\$ 18,326	\$ -	\$ 99,851
Buildings	548,672	455,271	-	1,003,943
Equipment	11,314,573	315,303	89,345	11,719,221
Totals	<u>\$ 11,944,770</u>	<u>\$ 788,900</u>	<u>\$ 89,345</u>	<u>\$ 12,823,015</u>

## DEBT ADMINISTRATION

At December 31, 2005, the Utilities had approximately \$5,505,000 in bonds and other long-term debt, compared to approximately \$5,825,000 last year, as shown below.

Outstanding Debt at Year-End		
	December 31,	
	2005	2004
General Obligation Bonds	\$ 365,000	\$ 400,000
Revenue Bonds	5,140,000	5,425,000
Total	<u>\$ 5,505,000</u>	<u>\$ 5,825,000</u>

Debt decreased as a result of annual principal payments.

## ALWAYS WITH THE CUSTOMER IN MIND

OMU's customer/owners have come to expect nothing but the best in terms of receiving exceptional service and reliability delivered at a reasonable price. As a public utility, we have the challenge, as well as the obligation, to provide electricity, natural gas and communication services to our customers by the most cost-efficient means possible.

Through participation in various regional electric and natural gas rate surveys, we are pleased to report that OMU consistently ranks very favorably. Not only are our retail rates significantly below the national averages, but among Iowa's 137 municipal electric and 49 municipal gas utilities, typically among the lowest cost providers of energy services in the country. OMU residential electric and gas rates consistently rank among the lowest 20% and 35%, respectively, in the state.

In spite of low rates, OMU gives back to the community by providing free services, which include street lighting, traffic signals, heating the water for the City's swimming pool, tree work and miscellaneous labor for a variety of City projects, as well as an annual cash transfer to the City of Osage's general fund. In 2005 the value of total cash transfers and services-in-kind to the City of Osage amounted to almost \$130,000.

The OMU Board of Trustees and management are proud of a long tradition of low electric and natural gas rates. Although no price adjustments have been necessary in the Electric and Gas Utilities since 1998 and 2000, respectively, cost increases and creeping inflation required that an electric cost-of-service study be conducted during the latter part 2005. A retail electric rate increase of about 8% was recommended and ultimately approved for implementation in the spring of 2006. OMU remains committed to invest in the necessary capital improvements and major maintenance items on each distribution system to continue delivering the utmost in reliable products and services.

Like electric and natural gas rates, cable television, telephone and internet rates are also typically lower with local ownership. In Osage, rates for these services have not changed since they were first offered in late 2002, allowing all consumers of communication services in the Osage area to continue to benefit from the competitive nature of the Osage marketplace.

#### **CONTACTING THE UTILITIES' FINANCIAL MANAGEMENT**

This financial report is designed to provide our customers and creditors with a general overview of the Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Dennis Fannin, General Manager, 720 Chestnut Street, Osage, Iowa.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Combining Balance Sheets – Enterprise Funds

		<b>Light and Power Division</b>	
		December 31,	
		2005	2004
<b>Assets</b>			
Current Assets			
Cash (Note 1)	\$ 1,642,384	\$ 1,194,349	
Investments	214,900	214,900	
Inventories (Note 1)	381,297	362,003	
Other Investments	30	30	
Accounts Receivable - Trade, Net	324,552	337,274	
Accounts Receivable - Unbilled (Note 1)	179,106	177,949	
Accounts Receivable - Miscellaneous	14,501	122,019	
Accrued Interest Receivable	8,399	69	
Prepaid Expenses	17,566	18,610	
Total Current Assets	\$ 2,782,735	\$ 2,427,203	
Capital Assets, Net (Note 1)	\$ 11,944,770	\$ 12,359,085	
Other Assets			
Bond Discount	\$ 97,580	\$ 97,580	
Less Accumulated Amortization	46,104	38,921	
	\$ 51,476	\$ 58,659	
Prepaid Contract Fee	\$ 40,000	\$ 40,000	
Less Accumulated Amortization	30,666	26,666	
	\$ 9,334	\$ 13,334	
Net Other Assets	\$ 60,810	\$ 71,993	
Total Assets	\$ 14,788,315	\$ 14,858,281	
Liabilities and Fund Equity			
Excess of Checks Written	\$ -	\$ -	
Customer Meter Deposits	12,051	11,898	
Purchased Power Payable	93,636	93,739	
Natural Gas Payable	-	-	
Accounts Payable and Other Liabilities	97,263	92,283	
Accrued Wages and Employee Benefits	32,812	32,609	
Customer Budget Billing	2,531	5,363	
Unearned Revenue	-	-	
Payable to the City of Osage	82,086	83,468	
Accrued Interest	20,295	21,306	
Current Portion of Long Term Debt	300,000	285,000	
Total Current Liabilities	\$ 640,674	\$ 625,666	
Long Term Debt			
General Obligation Bonds, Net of Current Portion	\$ -	\$ -	
Revenue Bonds, Net of Current Portion	4,840,000	5,140,000	
Total Long Term Debt	\$ 4,840,000	\$ 5,140,000	
Net Assets			
Reserved:			
Debt Service	\$ 546,025	\$ 215,000	
Sinking Fund	114,875	148,022	
System Improvement	100,000	100,000	
Unreserved	8,546,741	8,629,593	

See notes to financial statements.

Exhibit A

<b>Gas Division</b>		<b>Other Nonmajor Enterprise Funds</b>		<b>Total Enterprise Funds</b>	
<b>December 31,</b>		<b>Telecom Division</b>		<b>December 31,</b>	
<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
\$ 793,624	\$ 822,011	\$ 475,188	\$ 509,998	\$ 2,911,196	\$ 2,526,358
-	-	-	-	214,900	214,900
15,879	17,541	10,048	12,595	407,224	392,139
-	-	-	-	30	30
441,072	342,380	327,498	259,580	1,093,122	939,234
443,342	331,292	5,191	11,503	627,639	520,744
1,004	1,543	-	-	15,505	123,562
4,837	-	756	-	13,992	69
233,251	177,112	13,196	1,949	264,013	197,671
<u>\$ 1,933,009</u>	<u>\$ 1,691,879</u>	<u>\$ 831,877</u>	<u>\$ 795,625</u>	<u>\$ 5,547,621</u>	<u>\$ 4,914,707</u>
\$ 788,900	\$ 805,260	\$ 89,345	\$ 92,422	\$ 12,823,015	\$ 13,256,767
\$ -	\$ -	\$ -	\$ -	\$ 97,580	\$ 97,580
-	-	-	-	46,104	38,921
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 51,476</u>	<u>\$ 58,659</u>
\$ -	\$ -	\$ -	\$ -	\$ 40,000	\$ 40,000
-	-	-	-	30,666	26,666
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 9,334</u>	<u>\$ 13,334</u>
\$ -	\$ -	\$ -	\$ -	\$ 60,810	\$ 71,993
<u>\$ 2,721,909</u>	<u>\$ 2,497,139</u>	<u>\$ 921,222</u>	<u>\$ 888,047</u>	<u>\$ 18,431,446</u>	<u>\$ 18,243,467</u>
\$ -	\$ -	\$ 4,119	\$ 4,928	\$ 4,119	\$ 4,928
26,281	25,313	13,080	7,946	51,412	45,157
-	-	-	-	93,636	93,739
369,238	255,175	-	-	369,238	255,175
35,439	35,496	46,445	150,019	179,147	277,798
21,206	21,773	14,072	10,806	68,090	65,188
134,179	87,251	-	-	136,710	92,614
-	-	84,838	71,996	84,838	71,996
-	-	-	-	82,086	83,468
-	-	1,194	1,270	21,489	22,576
-	-	40,000	35,000	340,000	320,000
<u>\$ 586,343</u>	<u>\$ 425,008</u>	<u>\$ 203,748</u>	<u>\$ 281,965</u>	<u>\$ 1,430,765</u>	<u>\$ 1,332,639</u>
\$ -	\$ -	\$ 325,000	\$ 365,000	\$ 325,000	\$ 365,000
-	-	-	-	4,840,000	5,140,000
<u>\$ -</u>	<u>\$ -</u>	<u>\$ 325,000</u>	<u>\$ 365,000</u>	<u>\$ 5,165,000</u>	<u>\$ 5,505,000</u>
\$ -	\$ -	\$ -	\$ -	\$ 546,025	\$ 215,000
-	-	-	-	114,875	148,022

Osage Municipal Utilities  
A Component Unit of the City of Osage

Combining Statements of Revenues, Expenses and  
Changes in Net Assets – Enterprise Funds

	<b>Light and Power Division</b>	
	Years ended December 31,	
	2005	2004
Operating Revenues		
Charges for Service	\$ 3,085,078	\$ 2,972,629
Operating Expenses		
Business Type Activities	2,851,167	2,691,403
Operating Income	\$ 233,911	\$ 281,226
Non-Operating Revenues (Expenses)		
Interest Income	\$ 44,023	\$ 20,783
Interest Expense	(254,742)	(266,275)
Other Income	185,200	125,503
Total Non-Operating Revenues (Expenses)	\$ (25,519)	\$ (119,989)
Other Financing Sources (Uses)		
Operating Transfers In	\$ 778	\$ -
Operating Transfers Out	-	-
Gain \ (Loss) on Disposal of Capital Assets	5,856	(8,361)
Total Other Financing Sources (Uses)	\$ 6,634	\$ (8,361)
Change In Net Assets	\$ 215,026	\$ 152,876
Net Assets-Beginning of Year, as Restated in Note (18)	9,092,615	8,939,739
Net Assets-End of Year	\$ 9,307,641	\$ 9,092,615

See notes to financial statements.

Exhibit B

<b>Gas Division</b>		<b>Other Nonmajor Enterprise Funds</b>		<b>Total Enterprise Funds</b>	
Years ended December 31,		Telecom Division Years ended December 31,		Years ended December 31,	
2005	2004	2005	2004	2005	2004
\$ 3,381,858	\$ 2,696,983	\$ 1,415,397	\$ 1,371,846	\$ 7,882,333	\$ 7,041,458
3,350,461	2,689,454	1,258,047	1,162,534	7,459,675	6,543,391
\$ 31,397	\$ 7,529	\$ 157,350	\$ 209,312	\$ 422,658	\$ 498,067
\$ 32,198	\$ 16,232	\$ 9,623	\$ 4,899	\$ 85,844	\$ 41,914
(192)	(265)	(14,757)	(15,390)	(269,691)	(281,930)
32	28	-	-	185,232	125,531
\$ 32,038	\$ 15,995	\$ (5,134)	\$ (10,491)	\$ 1,385	\$ (114,485)
\$ -	\$ -	\$ 32,000	\$ 90,000	\$ 32,778	\$ 90,000
-	-	(32,778)	(90,000)	(32,778)	(90,000)
-	-	(46)	-	5,810	(8,361)
\$ -	\$ -	\$ (824)	\$ -	\$ 5,810	\$ (8,361)
\$ 63,435	\$ 23,524	\$ 151,392	\$ 198,821	\$ 429,853	\$ 375,221
2,072,131	2,048,607	241,082	42,261	11,405,828	11,030,607
\$ 2,135,566	\$ 2,072,131	\$ 392,474	\$ 241,082	\$ 11,835,681	\$ 11,405,828



Osage Municipal Utilities  
A Component Unit of the City of Osage

Combining Statements of Cash Flows – Enterprise Funds

	<b>Light and Power Division</b>	
	Years ended December 31,	
	2005	2004
Cash Flows from Operating Activities:		
Cash Received from Customers	\$ 3,201,482	\$ 2,836,512
Cash Payments to Suppliers for Goods and Services	(1,689,411)	(1,568,929)
Cash Payments to Employees for Goods and Services	(410,130)	(386,115)
Cash Payments for Contributions	(46,494)	(46,669)
Net Cash Provided by Operating Activities	<u>\$ 1,055,447</u>	<u>\$ 834,799</u>
Cash Flows from Non-capital Financing Activities:		
Transfers from Other Funds	\$ 778	\$ -
Transfers to Other Funds	-	-
Miscellaneous Non-operating Income	197,423	125,503
Net Cash Provided (Used) by Non-capital Financing Activities	<u>\$ 198,201</u>	<u>\$ 125,503</u>
Cash Flows from Capital and Related Financing Activities:		
Acquisition of Capital Assets	\$ (300,553)	\$ (341,321)
Principal Paid on Debt	(285,000)	(275,000)
Interest Paid on Debt	(255,753)	(267,228)
Net cash Used by Capital Related Financing Activities	<u>\$ (841,306)</u>	<u>\$ (883,549)</u>
Cash Flows from Investing Activities:		
Investment Income	\$ 35,693	\$ 20,753
Net Cash Provided by Investing Activities	<u>\$ 35,693</u>	<u>\$ 20,753</u>
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 448,035	\$ 97,506
Cash and Cash Equivalents at December 31, 2004	1,194,349	1,096,843
Cash and Cash Equivalents at December 31, 2005	<u><u>\$ 1,642,384</u></u>	<u><u>\$ 1,194,349</u></u>
Reconciliation of Operating Income to Net Cash		
Provided by Operating Activities:		
Operating Income	\$ 233,911	\$ 281,226
Adjustments to Reconcile Operating Income to		
Net Cash Provided by Operating Activities:		
Depreciation	708,501	695,951
Amortization	11,183	11,555
Changes in Assets and Liabilities:		
(Increase) Decrease in Receivables	119,083	(138,059)
(Increase) Decrease in Inventory	(19,294)	(109,146)
(Increase) Decrease in Other Assets	1,044	(1,013)
Increase (Decrease) in Accounts Payable and Other Liabilities	1,019	94,285
Net Cash Provide by Operating Activities	<u><u>\$ 1,055,447</u></u>	<u><u>\$ 834,799</u></u>

See notes to financial statements.

Exhibit C

<b>Gas Division</b>		<b>Other Nonmajor Enterprise Funds Telecom Division</b>		<b>Total Enterprise Funds</b>	
Years ended December 31,		Years ended December 31,		Years ended December 31,	
2005	2004	2005	2004	2005	2004
\$ 3,219,551	\$ 2,512,037	\$ 1,371,764	\$ 1,390,767	\$ 7,792,797	\$ 6,739,316
(2,925,852)	(2,279,048)	(939,264)	(691,233)	(5,554,527)	(4,539,210)
(227,427)	(228,420)	(403,243)	(348,536)	(1,040,800)	(963,071)
(80,449)	(85,908)	(2,595)	(1,772)	(129,538)	(134,349)
<u>\$ (14,177)</u>	<u>\$ (81,339)</u>	<u>\$ 26,662</u>	<u>\$ 349,226</u>	<u>\$ 1,067,932</u>	<u>\$ 1,102,686</u>
\$ -	\$ -	\$ 32,000	\$ 90,000	\$ 32,778	\$ 90,000
-	-	(32,778)	(90,000)	(32,778)	(90,000)
32	28	-	-	197,455	125,531
<u>\$ 32</u>	<u>\$ 28</u>	<u>\$ (778)</u>	<u>\$ -</u>	<u>\$ 197,455</u>	<u>\$ 125,531</u>
\$ (41,411)	\$ (39,600)	\$ (19,729)	\$ (114,241)	\$ (361,693)	\$ (495,162)
-	-	(35,000)	-	(320,000)	(275,000)
(192)	(265)	(14,833)	(15,391)	(270,778)	(282,884)
<u>\$ (41,603)</u>	<u>\$ (39,865)</u>	<u>\$ (69,562)</u>	<u>\$ (129,632)</u>	<u>\$ (952,471)</u>	<u>\$ (1,053,046)</u>
<u>\$ 27,361</u>	<u>\$ 16,232</u>	<u>\$ 8,868</u>	<u>\$ 4,899</u>	<u>\$ 71,922</u>	<u>\$ 41,884</u>
<u>\$ 27,361</u>	<u>\$ 16,232</u>	<u>\$ 8,868</u>	<u>\$ 4,899</u>	<u>\$ 71,922</u>	<u>\$ 41,884</u>
\$ (28,387)	\$ (104,944)	\$ (34,810)	\$ 224,493	\$ 384,838	\$ 217,055
822,011	926,955	509,998	285,505	2,526,358	2,309,303
<u>\$ 793,624</u>	<u>\$ 822,011</u>	<u>\$ 475,188</u>	<u>\$ 509,998</u>	<u>\$ 2,911,196</u>	<u>\$ 2,526,358</u>
\$ 31,397	\$ 7,529	\$ 157,350	\$ 209,312	\$ 422,658	\$ 498,067
57,771	63,711	22,760	7,535	789,032	767,197
-	-	-	-	11,183	11,555
(210,203)	(181,679)	(61,606)	20,607	(152,726)	(299,131)
1,662	1,854	2,547	(2,929)	(15,085)	(110,221)
(56,139)	13,078	(11,246)	(95)	(66,341)	11,970
161,335	14,168	(83,143)	114,796	79,211	223,249
<u>\$ (14,177)</u>	<u>\$ (81,339)</u>	<u>\$ 26,662</u>	<u>\$ 349,226</u>	<u>\$ 1,067,932</u>	<u>\$ 1,102,686</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Notes to Enterprise Fund Financial Statements

(1) Summary of Significant Accounting Policies

The accompanying component unit financial statements of the City of Osage include the Light and Power Division, the Gas Division and the Telecom Division of the Osage Municipal Utilities. The Light and Power Division, the Gas Division and the Telecom Division of the Utilities were established under Chapter 388 of the Iowa Code and are governed by a separate Board of Trustees. Complete financial statements of the City of Osage, which issued separate financial statements, can be obtained from the City's administrative offices.

A. Reporting Entity

For financial reporting purposes, the Osage Municipal Utilities has included all funds, organizations, agencies, boards, commissions and authorities. The Utilities has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' component unit financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Utilities. The Utilities has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The Utilities participate in a jointly governed organization that provides goods and services to the Utilities but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating parties. The General Manager serves on the Upper Midwest Municipal Power Agency.

B. Basis of Presentation

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. The Utilities' component unit financial statements consist entirely of enterprise funds. All remaining enterprise funds are aggregated and reported as nonmajor enterprise funds.

The Utilities report the following major enterprise funds:

The Light and Power Fund accounts for the delivery of electricity to the citizens and businesses of Osage.

The Gas Fund accounts for the delivery of natural gas to the citizens and businesses of Osage.

### C. Measurement Focus and Basis of Accounting

The accounts of the Utilities are organized as funds, which are considered to be separate accounting entities. The accrual basis of accounting is used by these enterprise funds.

#### Cash

For purposes of the statement of cash flows, the Utilities define cash as demand deposits in bank, excluding certificates of deposit, as the intent is to hold them for major repairs or additions to the system. Cash also includes funds held in a segregated account in the Wisconsin Local Government Investment Pool through Western Wisconsin Municipal Power Group, Inc.

#### Investments

Investments are stated at the lower of cost or market.

#### Inventories

Inventories, which consist of fuel oil and materials for plant and distribution systems, are stated at the lower of cost (first-in, first-out) or market.

#### Accounts Receivable – Unbilled

The Utilities accrue estimated, unbilled revenues for services rendered subsequent to the last billing date, and prior to year end. This amount is calculated based upon the number of days between the last billing period in December and the year end; multiplied by the amount of the first billing subsequent to year end.

For the years ended 2005 and 2004, the balance in (CABS) Carrier Access Billings Systems Accounts Receivable was \$223,568 and \$254,984, respectively. It is a balance due from other phone companies for the use of local lines. The exact amount of use was under dispute with Qwest during 2004. The amount which was not collected, \$88,301, was written off during 2004.

#### Capital Assets

Capital Assets are carried at cost. Depreciation has been provided using the straight-line method over the estimated useful lives of the related assets. The cost of repairs and maintenance is charged to the expense when paid, while the cost of renewals or substantial improvements are capitalized. Depreciation expense was \$789,033 and \$767,197 in 2005 and 2004, respectively. Amortization expense for the year included a prepaid contract fee disclosed in Note 15, discounts disclosed in Note 3, and a prepaid warranty. Total amortization expense was \$11,183 and \$11,555 for the years ended December 31, 2005 and 2004, respectively.

The Telecom Division was established in 2001 and began operations in 2002 under Chapter 388 of the Iowa Code and is governed by the Board of Trustees. The Light and Power Division built a substantial portion of the assets for the Telecom Division and the assets are recorded in the Light and Power Division. The two Divisions share the assets and the Telecom Division makes annual lease payments for the use of the assets.

#### D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended December 31, 2005, disbursements did not exceed the amounts budgeted.

#### (2) Cash and Pooled Investments

The Utilities maintain all deposits in bank accounts in the name of the Osage Municipal Utilities. The Utilities' deposits at December 31, 2005 and 2004 were entirely covered by federal depository insurance, collateralized with securities or letters of credit held by the Utilities or the Utilities' agent in the Utilities' name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utilities are authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities have funds on deposit with the Wisconsin Local Government Investment Pool as part of their Shared Transmission System Agreement with Dairyland Power Cooperative. According to the agreement, the funds can be drawn at any time, and have been drawn in the past. These deposits were \$139,661 and \$106,737 as of December 31, 2005 and 2004, respectively. This Wisconsin Local Government Investment Pool is held outside the State of Iowa. Cash is used in order to invest in transmission improvements and to cover control center costs.

Interest rate risk – The Utilities' investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the Utilities.

#### (3) Bonds Payable

Annual debt service requirements to maturity for general obligation bonds and electric revenue bonds are as follows:

Year Ending Dec. 31,	General Obligation		Electric Revenue		Total	
	Bonds		Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2006	\$ 40,000	\$ 13,686	\$ 300,000	\$ 243,520	\$ 340,000	\$ 257,206
2007	40,000	12,366	310,000	230,420	350,000	242,786
2008	40,000	10,956	325,000	216,775	365,000	227,731
2009	45,000	9,359	340,000	202,213	385,000	211,572
2010	45,000	7,581	355,000	187,933	400,000	195,514
2011 - 2015	155,000	10,325	2,035,000	683,683	2,190,000	694,008
2016 - 2020	-	-	1,475,000	154,780	1,475,000	154,780
Total	\$ 365,000	\$ 64,273	\$ 5,140,000	\$ 1,919,324	\$ 5,505,000	\$ 1,983,597

Bond discount amortization was \$7,183 and \$7,555, respectively, for the years ended December 31, 2005 and 2004.

The resolution providing for the issuance of the revenue bonds includes the following provisions.

- (a) The bonds are payable from and secured by a pledge of the net revenues of the Municipal Electric Light and Power.
- (b) Sufficient monthly transfers shall be made to a sinking fund account for the purpose of making the bond principal and interest payments when due.
- (c) Sufficient monthly transfers shall be made to a reserve fund to be used solely for the purpose of paying principal at maturity or interest on the bonds for the payment of which sufficient money may not be available in the sinking fund.
- (d) Sufficient monthly transfers shall be made to an improvement fund account to be used solely for the purpose of paying principal or interest on the bonds when there shall be insufficient money in the sinking fund and reserve fund; and to the extent not required for the foregoing to pay the cost of extraordinary maintenance expenses or repairs, renewals and replacements not included in the annual budget of revenues and current expenses, or capital improvements to the system.

(4) Changes in Long-Term Debt

A summary of long-term debt for the year ended December 31, 2005 is as follows:

	Light and Power Division	Telecom Division
Balance, Beginning of Year	\$ 5,425,000	\$ 400,000
Additions	-	-
Redemptions	(285,000)	(35,000)
Balance, End of Year	\$ 5,140,000	\$ 365,000

(5) Pension and Retirement Benefits

The Utilities contribute to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the Utilities are required to contribute 5.75% of annual covered payroll. Contribution requirements are established by state statute. The Utilities' contributions to IPERS for the years ended December 31, 2005, 2004, and 2003 were \$50,477, \$49,688 and \$48,652, respectively, equal to the required contributions for each year.

(6) Contingencies

The Utilities' operations are subject to regulations promulgated and administered by the Iowa Department of Natural Resources (IDNR) and the Environmental Protection Agency (EPA). The complexity of these regulations results in many areas of uncertainty and requires interpretation. The IDNR and/or the EPA may question various utility interpretations. If the Utilities' interpretations do not prevail, there could be adverse effects.

(7) Compensated Absences

The Utilities' employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are recognized as expenses in the year incurred. The Utilities' liability for employee benefits at December 31, are as follows:

<u>Type of Benefit</u>	<u>2005</u>	<u>2004</u>
Vacation	<u>\$30,092</u>	<u>\$28,530</u>

This liability has been computed based on rates of pay as of December 31, 2005 and 2004, respectively.

Sick leave time is cancelled when an employee leaves his or her employment with the Utilities.

(8) Interfund Transfers

The detail of interfund transfers for the year ended December 31, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
Enterprise:	Enterprise:	
Rural Wireless	Internet	<u>\$32,000</u>

(9) Related Party Transactions

The Utilities had business transactions totaling \$0 and \$2,261 between the Utilities and the Utilities' employees and/or officials during the years ended December 31, 2005 and 2004, respectively.

(10) Risk Management

The Osage Municipal Utilities is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The Utilities assume liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(11) Fair Value of Financial Instruments

The Utilities are required to disclose the estimated fair values for all financial instruments for which it is practicable to estimate fair value. For instruments including cash, accounts receivable and payable and accruals, it was assumed that the carrying amounts approximated fair value because of their short maturities. The carrying amounts of long-term debt, which matures through the year 2018, are also assumed to approximate their fair value.

(12) Use of Estimates

The preparation of component unit financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

(13) Partial Self-funded Insurance

The Utilities use a partially self-funded dental/vision insurance program. Maximum potential costs of the program include medical benefits with limits of \$600 per covered family for a total of \$11,900 and \$12,600 for the years ending December 31, 2005 and 2004, respectively. Actual submitted claims total \$9,719 and \$10,752 for the years ending December 31, 2005 and 2004, respectively. Actual utilization rate is 82% and 85% for the fiscal years ended December 31, 2005 and 2004, respectively. Any remaining liability has been submitted and accrued.

(14) Forward Contracts

In the normal course of business, there are outstanding commitments which are not reflected in the balance sheets. In order to protect its customers from the volatility of natural gas prices, the Utilities have entered into forward contracts. There are five contracts to purchase a total of 50,000 MCF (1,000 cubic feet) at an average price of \$10.216 for a total of approximately \$510,800. These contracts will be used to price the gas to the customers when completed.

(15) Commitments

Purchase

The Utilities entered into a long-term contract to purchase electricity from Alliant Energy. In connection with the contract, the Utilities paid expenses of \$40,000 that will be amortized over the life of the contract. Amortization expense charged to operations was \$4,000 and \$4,000 for the years ending December 31, 2005 and 2004, respectively.



### Contributions

In the year ended December 31, 2005, the Utilities made contributions to the Mitchell County Economic Development Corporation for \$2,000, and during 2004, the Utilities made contributions of \$500 to the Drug Abuse Resistance Education program.

### Construction

At December 31, 2005, the Utilities had construction commitments totaling \$23,659.

#### (16) Leases

The Light and Power and Gas Divisions lease a postage meter under a four-year operating lease requiring quarterly payments beginning on April 29, 2006. At December 31, 2005 future minimum lease payments are as follows:

Year ending December 31,	
2006	\$ 822
2007	822
2008	822
2009	822
2010	822
2011	<u>616</u>
Total	<u>\$ 4,726</u>

The Light and Power and Gas Divisions lease pagers on a month-to-month lease. The lease payments paid were \$390 and \$662 for the years ending December 31, 2005 and 2004, respectively.

#### (17) Joint Lease Agreement

The Light and Power Division built a Fiber Optic System for information transmission. Portions of the system are leased to the Telecom Division under a thirty-year operating lease, requiring approximate annual payments of \$154,380 beginning on December 31, 2005. Future minimum lease payments are as follows:

Year Ending December 31,	Payments
2006	154,380
2007	154,380
2008	154,380
2009	154,380
2010	154,380
2011 - 2015	771,900
2016 - 2020	771,900
2021 - 2025	771,900
2026 - 2030	771,900
2031 - 2035	<u>617,520</u>
Total	<u>\$ 4,477,020</u>

(18) Restatement of Net Assets

The Light and Power Division and Telecom Division share several capital assets. Some of those assets were recorded to each division based on usage. The assets are leased by Telecom Division as part of a Joint Lease Agreement described in Note (17), and it was determined that all of the assets should have been recorded in the Light and Power Division. The following outlines the effects of the change on the financial statements.

	Light and Power Division	Telecom Division
Net Assets at January 1, 2004		
As Previously Reported	\$ 8,464,962	\$ 517,038
Adjustment for Capital Assets Recorded in Telecom Division in 2003	<u>474,777</u>	<u>(474,777)</u>
Balance at January 1, 2004, as Restated	\$ 8,939,739	\$ 42,261
Change in Net Assets in 2004, as Restated	<u>152,876</u>	<u>198,821</u>
Net Assets at December 31, 2004	<u><u>\$ 9,092,615</u></u>	<u><u>\$ 241,082</u></u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Budgetary Comparison Schedule of Receipts, Disbursements and  
Changes in Balances-Budget and Actual Enterprise Funds

Required Supplementary information

Year ended December 31, 2005

	Light and Power Division	Gas Division	Telecom Division
Receipts:			
Use of Money and Property	\$ 44,023	\$ 32,198	\$ 9,623
Charges for Service	3,085,078	3,381,858	1,415,397
Miscellaneous	185,200	32	-
Total Receipts	<u>\$ 3,314,301</u>	<u>\$ 3,414,088</u>	<u>\$ 1,425,020</u>
Disbursements:			
Business Type Activities	<u>\$ 3,105,909</u>	<u>\$ 3,350,653</u>	<u>\$ 1,272,804</u>
Total Disbursements	<u>\$ 3,105,909</u>	<u>\$ 3,350,653</u>	<u>\$ 1,272,804</u>
Excess of Receipts over Disbursements	\$ 208,392	\$ 63,435	\$ 152,216
Other Financing Sources (Uses), Net	<u>6,634</u>	<u>-</u>	<u>(824)</u>
Excess of Receipts and Other Financing Sources Over Disbursements and Other Financing Uses	\$ 215,026	\$ 63,435	\$ 151,392
Balances Beginning of Year, as Restated in Note (18)	<u>9,092,615</u>	<u>2,072,131</u>	<u>241,082</u>
Balances End of Year	<u><u>\$ 9,307,641</u></u>	<u><u>\$ 2,135,566</u></u>	<u><u>\$ 392,474</u></u>

See accompanying independent auditors' report.

Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 85,844	\$ 37,500	\$ 37,500	\$ 48,344
7,882,333	8,152,992	8,152,992	(270,659)
185,232	138,700	138,700	46,532
<u>\$ 8,153,409</u>	<u>\$ 8,329,192</u>	<u>\$ 8,329,192</u>	<u>\$ (175,783)</u>
<u>\$ 7,729,366</u>	<u>\$ 8,138,582</u>	<u>\$ 8,138,582</u>	<u>\$ 409,216</u>
<u>\$ 7,729,366</u>	<u>\$ 8,138,582</u>	<u>\$ 8,138,582</u>	<u>\$ 409,216</u>
\$ 424,043	\$ 190,610	\$ 190,610	\$ 233,433
5,810	-	-	5,810
\$ 429,853	\$ 190,610	\$ 190,610	\$ 239,243
11,405,828	11,604,415	11,604,415	(198,587)
<u>\$ 11,835,681</u>	<u>\$ 11,795,025</u>	<u>\$ 11,795,025</u>	<u>\$ 40,656</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Notes to Required Supplementary Information – Budgetary Reporting

December 31, 2005

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget on the accrual basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. All function disbursements of the Utilities are required to be budgeted. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, the Osage Municipal Utilities did not amend the budget.

During the year ended December 31, 2005, disbursements did not exceed the amounts budgeted.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Combining Balance Sheets – Other Nonmajor Enterprise Funds

	<b>Internet</b>		<b>Cable</b>	
	December 31,		December 31,	
	2005	2004	2005	2004
<b>Assets</b>				
<b>Current Assets</b>				
Cash (Note 1)	\$ 50,679	\$ 46,958	\$ 153,693	\$ 118,111
Inventories (Note 1)	-	-	4,586	4,254
Accounts Receivable - Trade	5,063	7,367	56,889	50,505
Accounts Receivable - Unbilled (Note 1)	2,819	4,071	-	-
Accrued Interest Receivable	-	-	-	-
Prepaid Expenses	167	54	925	853
<b>Total Current Assets</b>	<b>\$ 58,728</b>	<b>\$ 58,450</b>	<b>\$ 216,093</b>	<b>\$ 173,723</b>
Capital Assets, Net (Note 1)	\$ 2,637	\$ 3,305	\$ -	\$ -
<b>Total Assets</b>	<b>\$ 61,365</b>	<b>\$ 61,755</b>	<b>\$ 216,093</b>	<b>\$ 173,723</b>
<b>Liabilities and Fund Equity</b>				
Excess of Checks Written	\$ -	\$ -	\$ -	\$ -
Customer Meter Deposits	-	-	6,764	4,210
Accounts Payable and Other Liabilities	969	3,361	21,449	21,440
Accrued Wages and Employee Benefits	5,304	4,869	2,875	5,937
Unearned Revenue	-	-	56,421	46,609
Accrued Interest	-	-	-	-
Current Portion of Long Term Debt	-	-	-	-
<b>Total Current Liabilities</b>	<b>\$ 6,273</b>	<b>\$ 8,230</b>	<b>\$ 87,509</b>	<b>\$ 78,196</b>
<b>Long Term Debt</b>				
General Obligation Bonds, Net of Current Portion	\$ -	\$ -	\$ -	\$ -
<b>Net Assets</b>				
Unreserved	\$ 55,092	\$ 53,525	\$ 128,584	\$ 95,527
<b>Total Net Assets, as Restated in Note (18)</b>	<b>\$ 55,092</b>	<b>\$ 53,525</b>	<b>\$ 128,584</b>	<b>\$ 95,527</b>
<b>Total Net Assets and Liabilities</b>	<b>\$ 61,365</b>	<b>\$ 61,755</b>	<b>\$ 216,093</b>	<b>\$ 173,723</b>

See accompanying independent auditors' report.

Schedule 1

<b>Telephony</b>		<b>Rural Wireless</b>		<b>Total Nonmajor Enterprise Funds</b>	
December 31,		December 31,		December 31,	
2005	2004	2005	2004	2005	2004
<hr/>					
\$ 270,816	\$ 344,929	\$ -	\$ -	\$ 475,188	\$ 509,998
5,462	8,341	-	-	10,048	12,595
262,462	199,923	3,084	1,785	327,498	259,580
2,372	7,432	-	-	5,191	11,503
756	-	-	-	756	-
12,104	1,017	-	25	13,196	1,949
<hr/>					
\$ 553,972	\$ 561,642	\$ 3,084	\$ 1,810	\$ 831,877	\$ 795,625
<hr/>					
\$ -	\$ -	\$ 86,708	\$ 89,117	\$ 89,345	\$ 92,422
<hr/>					
\$ 553,972	\$ 561,642	\$ 89,792	\$ 90,927	\$ 921,222	\$ 888,047
<hr/>					
\$ -	\$ -	\$ 4,119	\$ 4,928	\$ 4,119	\$ 4,928
3,916	3,436	2,400	300	13,080	7,946
19,876	122,223	4,151	2,995	46,445	150,019
5,893	-	-	-	14,072	10,806
25,333	23,866	3,084	1,521	84,838	71,996
1,194	1,270	-	-	1,194	1,270
40,000	35,000	-	-	40,000	35,000
<hr/>					
\$ 96,212	\$ 185,795	\$ 13,754	\$ 9,744	\$ 203,748	\$ 281,965
<hr/>					
\$ 325,000	\$ 365,000	\$ -	\$ -	\$ 325,000	\$ 365,000
<hr/>					
\$ 132,760	\$ 10,847	\$ 76,038	\$ 81,183	\$ 392,474	\$ 241,082
<hr/>					
\$ 132,760	\$ 10,847	\$ 76,038	\$ 81,183	\$ 392,474	\$ 241,082
<hr/>					
\$ 553,972	\$ 561,642	\$ 89,792	\$ 90,927	\$ 921,222	\$ 888,047
<hr/>					

Osage Municipal Utilities  
A Component Unit of the City of Osage

Combining Statements of Revenues, Expenses and  
Changes in Net Assets – Other Nonmajor Enterprise Funds

	<b>Internet</b>		<b>Cable</b>	
	Years ended December 31,		Years ended December 31,	
	2005	2004	2005	2004
Operating Revenues				
Charges for Service	\$ 83,870	\$ 122,703	\$ 600,061	\$ 539,761
Operating Expenses				
Business Type Activities	50,772	78,395	569,406	448,064
Operating Income (Loss)	<u>\$ 33,098</u>	<u>\$ 44,308</u>	<u>\$ 30,655</u>	<u>\$ 91,697</u>
Non-Operating Revenues (Expenses)				
Interest Income	\$ 469	\$ 807	\$ 2,814	\$ 673
Interest Expense	<u>-</u>	<u>-</u>	<u>(23)</u>	<u>(52)</u>
Total Non-Operating Revenues (Expenses)	<u>\$ 469</u>	<u>\$ 807</u>	<u>\$ 2,791</u>	<u>\$ 621</u>
Other Financing Sources (Uses)				
Operating Transfers In	\$ -	\$ -	\$ -	\$ -
Operating Transfers Out	(32,000)	(90,000)	(389)	-
Loss on Disposal of Capital Asset	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>\$ (32,000)</u>	<u>\$ (90,000)</u>	<u>\$ (389)</u>	<u>\$ -</u>
Change In Net Assets	\$ 1,567	\$ (44,885)	\$ 33,057	\$ 92,318
Net Assets-Beginning of Year, as Restated in Note (18)	<u>53,525</u>	<u>98,410</u>	<u>95,527</u>	<u>3,209</u>
Net Assets-End of Year	<u><u>\$ 55,092</u></u>	<u><u>\$ 53,525</u></u>	<u><u>\$ 128,584</u></u>	<u><u>\$ 95,527</u></u>

See accompanying independent auditors' report.



Schedule 2

<b>Telephony</b>		<b>Rural Wireless</b>		<b>Total Nonmajor Enterprise Funds</b>	
Years ended December 31,		Years ended December 31,		Years ended December 31,	
2005	2004	2005	2004	2005	2004
\$ 703,451	\$ 705,897	\$ 28,015	\$ 3,485	\$ 1,415,397	\$ 1,371,846
<u>572,727</u>	<u>623,772</u>	<u>65,142</u>	<u>12,303</u>	<u>1,258,047</u>	<u>1,162,534</u>
\$ 130,724	\$ 82,125	\$ (37,127)	\$ (8,818)	\$ 157,350	\$ 209,312
\$ 6,312	\$ 3,418	\$ 28	\$ 1	\$ 9,623	\$ 4,899
<u>(14,734)</u>	<u>(15,338)</u>	<u>-</u>	<u>-</u>	<u>(14,757)</u>	<u>(15,390)</u>
\$ (8,422)	\$ (11,920)	\$ 28	\$ 1	\$ (5,134)	\$ (10,491)
\$ -	\$ -	\$ 32,000	\$ 90,000	\$ 32,000	\$ 90,000
<u>(389)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(32,778)</u>	<u>(90,000)</u>
-	-	<u>(46)</u>	<u>-</u>	<u>(46)</u>	<u>-</u>
\$ (389)	\$ -	\$ 31,954	\$ 90,000	\$ (824)	\$ -
\$ 121,913	\$ 70,205	\$ (5,145)	\$ 81,183	\$ 151,392	\$ 198,821
<u>10,847</u>	<u>(59,358)</u>	<u>81,183</u>	<u>-</u>	<u>241,082</u>	<u>42,261</u>
<u>\$ 132,760</u>	<u>\$ 10,847</u>	<u>\$ 76,038</u>	<u>\$ 81,183</u>	<u>\$ 392,474</u>	<u>\$ 241,082</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Combining Statements of Cash Flows – Other Nonmajor Enterprise Funds

	<b>Internet</b>		<b>Cable</b>	
	Years ended December 31,		Years ended December 31,	
	2005	2004	2005	2004
Cash Flows from Operating Activities:				
Cash Received from Customers	\$ 87,425	\$ 127,380	\$ 606,042	\$ 552,938
Cash Payments to Suppliers for Goods and Services	(47,302)	(67,356)	(385,191)	(276,188)
Cash Payments to Employees for Goods and Services	(2,276)	(4,433)	(187,672)	(166,104)
Cash Payments for Contributions	(2,595)	(1,772)	-	-
Net Cash Provided (Used) by Operating Activities	\$ 35,252	\$ 53,819	\$ 33,179	\$ 110,646
Cash Flows from Non-capital Financing Activities:				
Transfers from Other Funds	\$ -	\$ -	\$ -	\$ -
Transfers to Other Funds	(32,000)	(90,000)	(389)	-
Net Cash Provided (Used) by Non-capital Financing Activities	\$ (32,000)	\$ (90,000)	\$ (389)	\$ -
Cash Flows from Capital and Related Financing Activities:				
Acquisition of Capital Assets	\$ -	\$ (1,105)	\$ -	\$ (6,755)
Principal Paid on Debt	-	-	-	-
Interest Paid on Debt	-	-	(23)	(52)
Net cash Used by Capital Related Financing Activities	\$ -	\$ (1,105)	\$ (23)	\$ (6,807)
Cash Flows from Investing Activities:				
Investment Income	\$ 469	\$ 807	\$ 2,815	\$ 673
Net Cash Provided by Investing Activities	\$ 469	\$ 807	\$ 2,815	\$ 673
Net Increase (Decrease) in Cash and Cash Equivalents	\$ 3,721	\$ (36,479)	\$ 35,582	\$ 104,512
Cash and Cash Equivalents at December 31, 2004	46,958	83,437	118,111	13,599
Cash and Cash Equivalents at December 31, 2005	\$ 50,679	\$ 46,958	\$ 153,693	\$ 118,111
Reconciliation of Operating Income to Net Cash Provided (Used) by Operating Activities:				
Operating Income (Loss)	\$ 33,098	\$ 44,308	\$ 30,655	\$ 91,697
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities:				
Depreciation	667	1,642	-	-
Changes in Assets and Liabilities:				
(Increase) Decrease in Receivables	3,555	4,676	(6,384)	8,217
(Increase) Decrease in Inventory	-	-	(332)	2,310
(Increase) Decrease in Other Assets	(112)	(20)	(72)	12
Increase (Decrease) in Accounts Payable and Other Liabilities	(1,956)	3,213	9,312	8,410
Net Cash Provided (Used) by Operating Activities	\$ 35,252	\$ 53,819	\$ 33,179	\$ 110,646

See accompanying independent auditors' report.

Schedule 3

<b>Telephony</b>		<b>Rural Wireless</b>		<b>Total Nonmajor Enterprise Funds</b>	
Years ended December 31,		Years ended December 31,		Years ended December 31,	
2005	2004	2005	2004	2005	2004
\$ 647,918	\$ 706,928	\$ 30,379	\$ 3,521	\$ 1,371,764	\$ 1,390,767
(484,038)	(349,178)	(22,733)	1,489	(939,264)	(691,233)
(193,350)	(177,999)	(19,945)	-	(403,243)	(348,536)
-	-	-	-	(2,595)	(1,772)
<u>\$ (29,470)</u>	<u>\$ 179,751</u>	<u>\$ (12,299)</u>	<u>\$ 5,010</u>	<u>\$ 26,662</u>	<u>\$ 349,226</u>
\$ -	\$ -	\$ 32,000	\$ 90,000	\$ 32,000	\$ 90,000
(389)	-	-	-	(32,778)	(90,000)
<u>\$ (389)</u>	<u>\$ -</u>	<u>\$ 32,000</u>	<u>\$ 90,000</u>	<u>\$ (778)</u>	<u>\$ -</u>
\$ -	\$ (11,371)	\$ (19,729)	\$ (95,010)	\$ (19,729)	\$ (114,241)
(35,000)	-	-	-	(35,000)	-
(14,810)	(15,338)	-	(1)	(14,833)	(15,391)
<u>\$ (49,810)</u>	<u>\$ (26,709)</u>	<u>\$ (19,729)</u>	<u>\$ (95,011)</u>	<u>\$ (69,562)</u>	<u>\$ (129,632)</u>
\$ 5,556	\$ 3,418	\$ 28	\$ 1	\$ 8,868	\$ 4,899
<u>\$ 5,556</u>	<u>\$ 3,418</u>	<u>\$ 28</u>	<u>\$ 1</u>	<u>\$ 8,868</u>	<u>\$ 4,899</u>
\$ (74,113)	\$ 156,460	\$ -	\$ -	\$ (34,810)	\$ 224,493
344,929	188,469	-	-	509,998	285,505
<u>\$ 270,816</u>	<u>\$ 344,929</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 475,188</u>	<u>\$ 509,998</u>
\$ 130,724	\$ 82,125	\$ (37,127)	\$ (8,818)	\$ 157,350	\$ 209,312
-	-	22,093	5,893	22,760	7,535
(57,479)	9,499	(1,298)	(1,785)	(61,606)	20,607
2,879	(5,239)	-	-	2,547	(2,929)
(11,087)	(62)	25	(25)	(11,246)	(95)
(94,507)	93,428	4,008	9,745	(83,143)	114,796
<u>\$ (29,470)</u>	<u>\$ 179,751</u>	<u>\$ (12,299)</u>	<u>\$ 5,010</u>	<u>\$ 26,662</u>	<u>\$ 349,226</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Combining Schedules of Operating Revenues – Enterprise Funds  
Unaudited

	<b>Light and Power Division</b>	
	Years ended December 31,	
	2005	2004
Operating Revenues		
Rural	\$ 60,548	\$ 58,121
Residential Sales	826,028	791,937
Commercial and Industrial	2,007,852	1,952,636
Public Buildings	14,390	14,829
Interruptibles	-	-
Line Payments, Net	-	-
Bookkeeping Fee - City of Osage	9,000	9,000
Other Operating Revenues	167,260	146,106
Total Operating Revenues	<u>\$ 3,085,078</u>	<u>\$ 2,972,629</u>

See accompanying independent auditors' report.

Schedule 4

<b>Gas Division</b>		<b>Other Nonmajor Enterprise Funds Telecom Division</b>		<b>Total Enterprise Funds</b>	
Years ended December 31,		Years ended December 31,		Years ended December 31,	
2005	2004	2005	2004	2005	2004
\$ -	\$ -	\$ -	\$ -	\$ 60,548	\$ 58,121
1,486,811	1,257,830	1,392,576	1,355,095	3,705,415	3,404,862
956,469	630,576	-	-	2,964,321	2,583,212
-	-	-	-	14,390	14,829
815,147	746,887	-	-	815,147	746,887
6,587	8,063	-	-	6,587	8,063
9,000	9,000	-	-	18,000	18,000
107,844	44,627	22,821	16,751	297,925	207,484
<u>\$ 3,381,858</u>	<u>\$ 2,696,983</u>	<u>\$ 1,415,397</u>	<u>\$ 1,371,846</u>	<u>\$ 7,882,333</u>	<u>\$ 7,041,458</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Combining Schedules of Operating Expenses – Enterprise Funds  
Unaudited

		<b>Light and Power Division</b>	
		Years ended December 31,	
		2005	2004
Operating Expenses			
Plant Expenses			
Supervision and Labor	\$	50,519	\$ 68,595
Payroll Taxes		17,759	23,775
Fuel		82,662	74,855
Load Management Expense		4,449	496
Engine Expense		21,042	16,093
Insurance		33,010	42,763
Supplies		14,056	16,670
Power Purchased		1,143,703	1,054,872
Communication Expense		583	793
School and Travel		696	215
Uniforms		3,971	4,265
Maintenance and Materials		11,533	4,448
Total Plant Expenses	\$	1,383,983	\$ 1,307,840
Distribution Expenses			
Supervision and Labor	\$	189,449	\$ 164,207
Payroll Taxes		23,903	24,014
Insurance		48,254	43,923
Truck Expense		19,143	10,735
Tree Removal Expense		1,272	697
Supplies		101,408	105,912
Maintenance, Repairs and Labor		1,522	4,314
Natural Gas Purchase		-	-
Propane Purchases		-	-
School and Travel		-	-
Uniforms		-	-
Safety		-	-
Communication Expense		195	195
Internet, Cable and Phone		-	-
Local Lines		-	-
Utilities		-	-
Miscellaneous		10,385	7,066
Total Distribution Expenses	\$	395,531	\$ 361,063

Schedule 5

<b>Gas Division</b>		<b>Other Nonmajor Enterprise Funds</b>		<b>Total Enterprise Funds</b>	
Years ended December 31,		Telecom Division		Years ended December 31,	
2005	2004	2005	2004	2005	2004
\$ -	\$ -	\$ -	\$ -	\$ 50,519	\$ 68,595
-	-	-	-	17,759	23,775
-	-	-	-	82,662	74,855
-	-	-	-	4,449	496
-	-	-	-	21,042	16,093
-	-	-	-	33,010	42,763
-	-	-	-	14,056	16,670
-	-	-	-	1,143,703	1,054,872
-	-	-	-	583	793
-	-	-	-	696	215
-	-	-	-	3,971	4,265
-	-	-	-	11,533	4,448
<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,383,983</u>	<u>\$ 1,307,840</u>
\$ 116,551	\$ 127,795	\$ 161,223	\$ 140,919	\$ 467,223	\$ 432,921
16,612	16,067	15,465	11,395	55,980	51,476
47,281	35,469	39,812	18,371	135,347	97,763
5,793	6,306	5,029	3,339	29,965	20,380
900	-	-	-	2,172	697
7,572	5,735	62,709	44,268	171,689	155,915
26,543	18,927	49,889	41,381	77,954	64,622
2,794,091	2,145,482	-	-	2,794,091	2,145,482
1,662	1,854	-	-	1,662	1,854
2,507	3,707	895	4,630	3,402	8,337
3,973	2,719	2,626	1,658	6,599	4,377
1,575	824	627	1,594	2,202	2,418
195	467	-	-	390	662
-	-	423,022	399,225	423,022	399,225
-	-	267	263	267	263
-	-	13,687	12,825	13,687	12,825
-	-	887	1,769	11,272	8,835
<u>\$ 3,025,255</u>	<u>\$ 2,365,352</u>	<u>\$ 776,138</u>	<u>\$ 681,637</u>	<u>\$ 4,196,924</u>	<u>\$ 3,408,052</u>

<b>Light and Power Division</b>		
Years ended December 31,		
	2005	2004
Office and Administration Expenses		
Office Salaries	\$ 113,428	\$ 90,059
Payroll Taxes	15,275	15,380
Use Tax	7,481	4,711
Property Taxes	2,453	2,381
Trustee Fees	1,200	1,240
Professional Fees	7,547	6,222
New Building Supplies	2,075	1,625
Office and Administration	15,281	12,622
Publication and Advertising	3,367	1,603
Utility Expense	140	756
Insurance	75,648	87,227
Global Warming Fee	3,318	3,154
Engineering Service	14,422	2,500
Office Supplies and Postage	10,758	9,719
Janitor Services	7,640	3,074
Office Equipment Expense	1,985	1,457
Uniform Expense	1,873	1,890
Dues	9,891	8,259
Contributions in Lieu of Taxes	46,494	46,669
Safety Expense	744	839
Energy Efficiency	3,304	3,080
Joint Lease Expense	-	-
Miscellaneous	7,645	10,527
Total Office and Administration Expenses	<u>\$ 351,969</u>	<u>\$ 314,994</u>
Other Expenses		
Depreciation	\$ 708,501	\$ 695,951
Amortization	11,183	11,555
Total Other Expenses	<u>\$ 719,684</u>	<u>\$ 707,506</u>
Total Operating Expenses	<u><u>\$ 2,851,167</u></u>	<u><u>\$ 2,691,403</u></u>

See accompanying independent auditors' report.



<b>Gas Division</b>		<b>Other Nonmajor Enterprise Funds</b>		<b>Total Enterprise Funds</b>	
Years ended December 31,		Years ended December 31,		Years ended December 31,	
2005	2004	2005	2004	2005	2004
\$ 73,513	\$ 67,192	\$ 160,074	\$ 158,467	\$ 347,015	\$ 315,718
20,184	19,249	7,652	6,490	43,111	41,119
524	1,149	(360)	3,382	7,645	9,242
-	-	17,331	39,646	19,784	42,027
1,200	1,140	2,400	2,480	4,800	4,860
5,977	8,117	11,505	17,644	25,029	31,983
3,145	1,843	-	67	5,220	3,535
1,398	1,381	58,418	62,627	75,097	76,630
3,761	2,155	23,412	18,049	30,540	21,807
140	756	-	-	280	1,512
34,108	30,515	29,645	40,761	139,401	158,503
2,709	2,442	-	-	6,027	5,596
1,620	2,500	484	180	16,526	5,180
11,017	9,764	14,024	12,810	35,799	32,293
4,661	391	-	-	12,301	3,465
1,794	1,403	824	2,020	4,603	4,880
1,873	1,881	-	-	3,746	3,771
11,012	9,606	4,162	1,943	25,065	19,808
80,449	85,908	2,595	1,773	129,538	134,350
468	2,267	-	-	1,212	3,106
3,862	3,820	-	-	7,166	6,900
-	-	121,149	100,000	121,149	100,000
4,020	6,912	5,834	5,023	17,499	22,462
<u>\$ 267,435</u>	<u>\$ 260,391</u>	<u>\$ 459,149</u>	<u>\$ 473,362</u>	<u>\$ 1,078,553</u>	<u>\$ 1,048,747</u>
\$ 57,771	\$ 63,711	\$ 22,760	\$ 7,535	\$ 789,032	\$ 767,197
-	-	-	-	11,183	11,555
<u>\$ 57,771</u>	<u>\$ 63,711</u>	<u>\$ 22,760</u>	<u>\$ 7,535</u>	<u>\$ 800,215</u>	<u>\$ 778,752</u>
<u>\$ 3,350,461</u>	<u>\$ 2,689,454</u>	<u>\$ 1,258,047</u>	<u>\$ 1,162,534</u>	<u>\$ 7,459,675</u>	<u>\$ 6,543,391</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Capital Assets  
Unaudited  
Year ended December 31, 2005

Light and Power Division

Capital Assets	Assets at Cost			Balance 12/31/05	Estimated Life in Years
	Balance 12/31/04	Additions	Eliminations		
Land and Improvements	\$ 56,003	\$ 29,713	\$ -	\$ 85,716	15 to 30
Buildings and Improvements	1,027,581	56,262	-	1,083,843	5 to 30
Generating Equipment and Lines	11,803,832	158,999	-	11,962,831	5 to 40
Equipment	422,066	19,271	-	441,337	5 to 20
Vehicles	564,564	11,789	-	576,353	5 to 20
Broadband Room	115,951	5,468	-	121,419	5 to 40
HFC Distribution Center	5,641,263	4,735	-	5,645,998	5 to 40
Telecom Equipment	368,118	9,316	7,718	369,716	5 to 40
Telecom Truck	22,893	-	-	22,893	5
Iowa Stored Energy Project	37,500	5,000	-	42,500	40
	<u>\$ 20,059,771</u>	<u>\$ 300,553</u>	<u>\$ 7,718</u>	<u>\$ 20,352,606</u>	

Capital Assets	Accumulated Depreciation			Balance 12/31/05	Undepreciated Cost 12/31/05
	Balance 12/31/04	Depreciation for Year	Eliminations		
Land and Improvements	\$ 3,709	\$ 482	\$ -	\$ 4,191	\$ 81,525
Buildings and Improvements	510,497	24,674	-	535,171	548,672
Generating Equipment and Lines	5,849,003	301,421	-	6,150,424	5,812,407
Equipment	234,285	21,969	-	256,254	185,083
Vehicles	336,043	41,707	-	377,750	198,603
Broadband Room	9,649	3,894	-	13,543	107,876
HFC Distribution Center	689,212	282,215	-	971,427	4,674,571
Telecom Equipment	56,568	27,560	1,351	82,777	286,939
Telecom Truck	11,720	4,579	-	16,299	6,594
Iowa Stored Energy Project	-	-	-	-	42,500
	<u>\$ 7,700,686</u>	<u>\$ 708,501</u>	<u>\$ 1,351</u>	<u>\$ 8,407,836</u>	<u>\$ 11,944,770</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Capital Assets  
Unaudited  
Year ended December 31, 2004

Light and Power Division

Capital Assets	Assets at Cost			Balance 12/31/04	Estimated Life in Years
	Balance 12/31/03	Additions	Eliminations		
Land and Improvements	\$ 56,003	\$ -	\$ -	\$ 56,003	15 to 30
Buildings and Improvements	1,014,191	13,390	-	1,027,581	5 to 30
Generating Equipment and Lines	11,568,824	235,008	-	11,803,832	5 to 40
Equipment	350,145	71,921	-	422,066	5 to 20
Vehicles	546,924	17,640	-	564,564	5 to 20
Broadband Room	115,951	-	-	115,951	5 to 40
HFC Distribution Center	5,649,481	862	9,080	5,641,263	5 to 40
Telecom Equipment	368,118	-	-	368,118	5 to 40
Telecom Truck	22,893	-	-	22,893	5
Iowa Stored Energy Project	35,000	2,500	-	37,500	40
	<u>\$ 19,727,530</u>	<u>\$ 341,321</u>	<u>\$ 9,080</u>	<u>\$ 20,059,771</u>	

Capital Assets	Accumulated Depreciation			Balance 12/31/04	Undepreciated Cost 12/31/04
	Balance 12/31/03	Depreciation for Year	Eliminations		
Land and Improvements	\$ 3,413	\$ 296	\$ -	\$ 3,709	\$ 52,294
Buildings and Improvements	486,407	24,090	-	510,497	517,084
Generating Equipment and Lines	5,550,964	298,039	-	5,849,003	5,954,829
Equipment	215,773	18,512	-	234,285	187,781
Vehicles	297,734	38,309	-	336,043	228,521
Broadband Room	5,784	3,865	-	9,649	106,302
HFC Distribution Center	407,381	282,550	719	689,212	4,952,051
Telecom Equipment	30,856	25,712	-	56,568	311,550
Telecom Truck	7,142	4,578	-	11,720	11,173
Iowa Stored Energy Project	-	-	-	-	37,500
	<u>\$ 7,005,454</u>	<u>\$ 695,951</u>	<u>\$ 719</u>	<u>\$ 7,700,686</u>	<u>\$ 12,359,085</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Capital Assets  
Unaudited  
Year ended December 31, 2005

Gas Division

<u>Assets at Cost</u>					
<u>Capital Assets</u>	Balance 12/31/04	Additions	Eliminations	Balance 12/31/05	Estimated Life in Years
Land and Improvements	\$ 20,109	\$ -	\$ -	\$ 20,109	5 to 20
Buildings and Improvements	570,463	-	-	570,463	10 to 40
Peak Shaving Plant	232,733	-	-	232,733	10 to 25
Gas Plant, Lines and Meters	805,762	23,242	-	829,004	10 to 33
Equipment	295,925	13,169	-	309,094	2 to 25
Vehicles	132,226	-	-	132,226	3 to 20
Iowa Stored Energy Project	37,500	5,000	-	42,500	40
	<u>\$ 2,094,718</u>	<u>\$ 41,411</u>	<u>\$ -</u>	<u>\$ 2,136,129</u>	
<u>Accumulated Depreciation</u>					
<u>Capital Assets</u>	Balance 12/31/04	Depreciation for Year	Eliminations	Balance 12/31/05	Undepreciated Cost 12/31/05
Land and Improvements	\$ 1,503	\$ 280	\$ -	\$ 1,783	\$ 18,326
Buildings and Improvements	99,827	15,365	-	115,192	455,271
Peak Shaving Plant	221,388	2,839	-	224,227	8,506
Gas Plant, Lines and Meters	667,076	14,343	-	681,419	147,585
Equipment	191,453	21,771	-	213,224	95,870
Vehicles	108,211	3,173	-	111,384	20,842
Iowa Stored Energy Project	-	-	-	-	42,500
	<u>\$ 1,289,458</u>	<u>\$ 57,771</u>	<u>\$ -</u>	<u>\$ 1,347,229</u>	<u>\$ 788,900</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Capital Assets  
Unaudited  
Year ended December 31, 2004

Gas Division

<u>Assets at Cost</u>					
<u>Capital Assets</u>	Balance 12/31/03	Additions	Eliminations	Balance 12/31/04	Estimated Life in Years
Land and Improvements	\$ 20,109	\$ -	\$ -	\$ 20,109	5 to 20
Buildings and Improvements	568,325	2,138	-	570,463	10 to 40
Peak Shaving Plant	232,733	-	-	232,733	10 to 25
Gas Plant, Lines and Meters	787,901	17,861	-	805,762	10 to 33
Equipment	278,824	17,101	-	295,925	2 to 25
Vehicles	142,964	-	10,738	132,226	3 to 20
Iowa Stored Energy Project	35,000	2,500	-	37,500	40
	<u>\$ 2,065,856</u>	<u>\$ 39,600</u>	<u>\$ 10,738</u>	<u>\$ 2,094,718</u>	

<u>Accumulated Depreciation</u>					
<u>Capital Assets</u>	Balance 12/31/03	Depreciation for Year	Eliminations	Balance 12/31/04	Undepreciated Cost 12/31/04
Land and Improvements	\$ 1,222	\$ 281	\$ -	\$ 1,503	\$ 18,606
Buildings and Improvements	84,619	15,208	-	99,827	470,636
Peak Shaving Plant	217,222	4,166	-	221,388	11,345
Gas Plant, Lines and Meters	653,503	13,573	-	667,076	138,686
Equipment	167,994	23,459	-	191,453	104,472
Vehicles	111,925	7,024	10,738	108,211	24,015
Iowa Stored Energy Project	-	-	-	-	37,500
	<u>\$ 1,236,485</u>	<u>\$ 63,711</u>	<u>\$ 10,738</u>	<u>\$ 1,289,458</u>	<u>\$ 805,260</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Capital Assets  
Unaudited  
Year ended December 31, 2005

Telecom Division

<u>Assets at Cost</u>					
Capital Assets	Balance 12/31/04	Additions	Eliminations	Balance 12/31/05	Estimated Life in Years
Internet Equipment	\$ 74,827	\$ -	\$ -	\$ 74,827	3 to 40
Rural Wireless Organizational Costs	40,476	-	-	40,476	20
Rural Wireless Equipment	14,619	8,795	-	23,414	3 to 20
Rural Wireless Premise Equipment	39,915	10,934	136	50,713	3 to 20
	<u>\$ 169,837</u>	<u>\$ 19,729</u>	<u>\$ 136</u>	<u>\$ 189,430</u>	
<u>Accumulated Depreciation</u>					
Capital Assets	Balance 12/31/04	Depreciation for Year	Eliminations	Balance 12/31/05	Undepreciated Cost 12/31/05
Internet Equipment	\$ 71,523	\$ 667	\$ -	\$ 72,190	\$ 2,637
Rural Wireless Organizational Costs	337	2,024	-	2,361	38,115
Rural Wireless Equipment	1,717	5,987	-	7,704	15,710
Rural Wireless Premise Equipment	3,838	14,082	90	17,830	32,883
	<u>\$ 77,415</u>	<u>\$ 22,760</u>	<u>\$ 90</u>	<u>\$ 100,085</u>	<u>\$ 89,345</u>

Year ended December 31, 2004

Telecom Division

<u>Assets at Cost</u>					
Capital Assets	Balance 12/31/03	Additions	Eliminations	Balance 12/31/04	Estimated Life in Years
Internet Equipment	\$ 73,722	\$ 1,105	\$ -	\$ 74,827	3 to 40
Rural Wireless Organizational Costs	-	40,476	-	40,476	20
Rural Wireless Equipment	-	14,619	-	14,619	3 to 20
Rural Wireless Premise Equipment	-	39,915	-	39,915	3 to 20
	<u>\$ 73,722</u>	<u>\$ 96,115</u>	<u>\$ -</u>	<u>\$ 169,837</u>	
<u>Accumulated Depreciation</u>					
Capital Assets	Balance 12/31/03	Depreciation for Year	Eliminations	Balance 12/31/04	Undepreciated Cost 12/31/04
Internet Equipment	\$ 69,880	\$ 1,643	\$ -	\$ 71,523	\$ 3,304
Rural Wireless Organizational Costs	-	337	-	337	40,139
Rural Wireless Equipment	-	1,717	-	1,717	12,902
Rural Wireless Premise Equipment	-	3,838	-	3,838	36,077
	<u>\$ 69,880</u>	<u>\$ 7,535</u>	<u>\$ -</u>	<u>\$ 77,415</u>	<u>\$ 92,422</u>

See accompanying independent auditors' report.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Licensed Vehicles  
Unaudited

Year ended December 31, 2005

**Light and Power Division**

<u>Type</u>	<u>Year</u>	<u>Make</u>	<u>License Number</u>
Boom Truck	1977	Ford	71373
Utility Truck – Pickup	1990	Chevrolet	75509
Minivan	1996	Dodge	86762
Boom Truck	1994	Ford	77773
Pole Trailer	1996	Homemade	88504
Digger Derrick	1997	Ford	80273
Utility Truck – Pickup	1998	Dodge	71372
Quad Trailer	1998	Q 600	88834
Puller Tensioner Trailer	1998	DPT 30B	88833
Utility Truck – Pickup	1999	GMC	89914
Service Truck	1999	GMC	85427
Boom Truck	2001	Chevrolet	71375
Excavator Trailer	2001	Trail King	89474
Silverado	2001	Chevrolet	83090
Utility Truck – Telecom Pickup	2002	Chevrolet	85440

**Gas Division**

Dump Truck	1984	Ford	79817
Utility Truck	1987	Chevrolet	71371
Tree Planter	1993	Vermeer	88083
Office Car	1994	Ford	79951
Pipe Trailer	1994	Homemade	88425
Service Truck	1995	Dodge	78503
Bobcat Trailer	1995	Homemade	88308
Office Minivan	1996	Ford	71378
Service Truck	1999	Ford	82682
Pipe Trailer	2000	Homemade	89152

See accompanying independent auditors' report.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Comparative Kilowatt Hours  
Unaudited

**Light and Power Division**

For the Years ended December 31, 1990 through December 31, 2005

<u>Year Ended December 31,</u>	<u>Kilowatt Hours Generated</u>	<u>Kilowatt Hours Purchased</u>	<u>Total Kilowatt Hours</u>	<u>Annual Kilowatt Hours Increase (Decrease)</u>	<u>Percent of Increase (Decrease)</u>
1990	195,800	34,914,806	35,110,606	1,628,843	4.86
1991	610,800	35,807,244	36,418,044	1,307,438	3.72
1992	335,400	35,384,218	35,719,618	( 698,426)	(1.92)
1993	333,800	37,725,285	38,059,085	2,339,467	6.55
1994	497,500	40,560,924	41,058,424	2,999,339	7.88
1995	875,500	43,360,285	44,235,785	3,177,361	7.74
1996	800,250	44,184,580	44,984,830	749,045	1.69
1997	549,520	45,186,175	45,735,695	750,865	1.67
1998	894,890	46,596,929	47,491,819	1,756,124	3.84
1999	1,535,101	46,692,000	48,227,101	735,282	1.55
2000	1,818,897	48,355,200	50,174,097	1,946,996	4.04
2001	2,296,623	48,501,131	50,797,754	623,657	1.24
2002	781,178	49,953,600	50,734,778	( 62,976)	(0.12)
2003	999,120	50,807,677	51,806,797	1,072,019	2.11
2004	731,018	52,793,581	53,524,599	1,717,802	3.32
2005	614,150	54,234,617	54,848,767	1,324,168	2.47

See accompanying independent auditors' report.



Osage Municipal Utilities  
A Component Unit of the City of Osage

Comparative Operating Statistics  
Unaudited

**Gas Division**

For the Years ended December 31, 1990 through December 31, 2005

Consumer Data

Year Ended December 31,	Heating Consumers		Total Consumers	
	Residential	Nonresidential	Residential	Nonresidential
1990	1,389	196	1,403	203
1991	1,424	192	1,439	198
1992	1,428	200	1,443	209
1993	1,444	199	1,458	209
1994	1,446	202	1,459	212
1995	1,457	200	1,468	210
1996	1,471	204	1,481	214
1997	1,481	211	1,492	221
1998	1,493	214	1,503	224
1999	1,506	216	1,512	225
2000	1,515	217	1,526	226
2001	1,523	222	1,534	230
2002	1,537	221	1,548	229
2003	1,544	225	1,555	242
2004	1,553	233	1,565	250
2005	1,565	240	1,578	256

Billing Data

Year Ended December 31,	Residential		Commercial		Standby	
	Amount	MCF (1)	Amount	MCF (1)	Amount	MCF (1)
1990	\$ 678,942	155,167	\$281,574	67,512	\$270,861	81,660
1991	\$ 713,609	167,090	\$300,575	74,119	\$288,276	86,160
1992	\$ 593,936	153,933	\$249,691	68,061	\$281,595	94,587
1993	\$ 690,925	171,566	\$336,158	88,407	\$231,796	74,664
1994	\$ 733,788	163,399	\$362,972	86,487	\$203,753	58,589
1995	\$ 704,277	167,318	\$345,864	86,840	\$300,109	96,177
1996	\$ 763,742	179,473	\$346,428	85,189	\$333,220	100,551
1997	\$ 850,400	167,041	\$395,344	80,844	\$386,724	98,835
1998	\$ 643,333	140,178	\$313,188	71,325	\$294,678	83,203
1999	\$ 650,939	143,900	\$328,910	76,751	\$298,119	81,389
2000	\$ 811,621	144,775	\$426,606	79,081	\$386,495	71,704
2001	\$1,434,837	154,619	\$746,438	82,203	\$533,385	79,082
2002	\$1,077,415	147,528	\$562,619	80,392	\$442,895	77,903
2003	\$1,157,292	151,024	\$588,351	79,744	\$493,646	78,281
2004	\$1,219,129	142,242	\$612,513	73,933	\$760,702	101,179
2005	\$1,454,893	140,364	\$923,304	89,974	\$844,526	80,914

(1)= MCF-1,000 cubic feet

See accompanying independent auditors' report.

Schedule 10Osage Municipal Utilities  
A Component Unit of the City of OsageDistribution of Energy  
Unaudited**Light and Power Division**

Year ended December 31, 2005

	<u>Meters</u>	<u>Kilowatt Hours</u>
Rural	89	1,040,590
Residential	1,692	13,670,325
Commercial	312	37,216,396
Public Authority	21	211,928
Rural Security Lighting on Flat Rate per Month, Unmetered	162	124,398
	<u>2,276</u>	<u>52,263,637</u>
Kilowatt Hours Used for Free Street Lighting		301,375
Kilowatt Hours Used at Plant		614,150
Kilowatt Hours Used at Municipal Building and Donated		177,674
Kilowatt Hours Lost and Unaccounted For		<u>1,491,931</u>
		<u>54,848,767</u>
Kilowatt Hours Purchased		54,234,617
Kilowatt Hours Generated		<u>614,150</u>
		<u>54,848,767</u>

Osage Municipal Utilities  
A Component Unit of the City of Osage

Distribution of Energy  
Unaudited

**Light and Power Division**

Year ended December 31, 2004

	<u>Meters</u>	<u>Kilowatt Hours</u>
Rural	91	994,316
Residential	1,681	12,977,819
Commercial	304	36,189,806
Public Authority	19	218,860
Rural Security Lighting on Flat Rate per Month, Unmetered	<u>156</u>	<u>114,568</u>
	<u>2,251</u>	50,495,369
Kilowatt Hours Used for Free Street Lighting		293,485
Kilowatt Hours Used at Plant		743,600
Kilowatt Hours Used at Municipal Building and Donated		201,746
Kilowatt Hours Lost and Unaccounted For		<u>1,790,399</u>
		<u>53,524,599</u>
Kilowatt Hours Purchased		52,793,581
Kilowatt Hours Generated		<u>731,018</u>
		<u>53,524,599</u>

See accompanying independent auditors' report.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Information Required by the Bond Resolution  
Unaudited

December 31, 2005

The following insurance policies were in force at December 31, 2005:

		<u>Insurer</u>	
		Employers Mutual Casualty Company	
<u>Coverage</u>			<u>Amount</u>
Property, including buildings, generating equipment and other contents, 90% Coinsurance #1 Blanket Limit \$3,455,799.	4/1/05 – 4/1/06		\$ 3,455,799
Property, including buildings, generating equipment and other contents, 90% Coinsurance #2 Blanket Limit \$601,716.	4/1/05 – 4/1/06		601,716
Property, including buildings, generating equipment and other contents, 90% Coinsurance #3 Blanket Limit \$15,482,814.	4/1/05 – 4/1/06		15,482,814
General Liability			
Aggregate Limit	4/1/05 – 4/1/06		2,000,000
Operations Limit	4/1/05 – 4/1/06		2,000,000
Personal Injury	4/1/05 – 4/1/06		1,000,000
Each Occurrence	4/1/05 – 4/1/06		1,000,000
Fire Damage Limit	4/1/05 – 4/1/06		100,000
Medical Insurance	4/1/05 – 4/1/06		5,000
Contractors Equipment	4/1/05 – 4/1/06		107,210
EDP Equipment	4/1/05 – 4/1/06		163,995
Miscellaneous Property	4/1/05 – 4/1/06		80,210
Theft			
Indoor	4/1/05 – 4/1/06		13,000
Outdoor	4/1/05 – 4/1/06		13,000

Osage Municipal Utilities  
A Component Unit of the City of Osage

Information Required by the Bond Resolution  
Unaudited

December 31, 2005

Automobile – Liability	4/1/05 – 4/1/06	1,000,000
Uninsured Motorist	4/1/05 – 4/1/06	50,000
Underinsured Motorist	4/1/05 – 4/1/06	50,000
Worker's Compensation		
Injury by Accident (employee)	4/1/05 – 4/1/06	500,000
Injury by Disease (employee)	4/1/05 – 4/1/06	500,000
Injury by Disease (limit)	4/1/05 – 4/1/06	500,000
Commercial Umbrella		
Retained Limit	4/1/05 – 4/1/06	10,000
Occurrence Limit	4/1/05 – 4/1/06	5,000,000
Aggregate Limit	4/1/05 – 4/1/06	5,000,000
Linebacker		
Each Loss	4/1/05 – 4/1/06	1,000,000
Aggregate	4/1/05 – 4/1/06	1,000,000
Deductible	4/1/05 – 4/1/06	2,500

Cincinnati Insurance Company

Boiler and Machinery		
Comprehensive Limit	4/1/05 – 4/1/06	15,500,000

State Auto

Surety Bond		
Employee Theft	3/25/05 – 3/25/06	150,000
Deductible	3/25/05 – 3/25/06	500

Osage Municipal Utilities  
A Component Unit of the City of Osage

Information Required by the Bond Resolution  
Unaudited

December 31, 2005

Rates in effect at December 31, 2005:

Electric Rates

Residential	Residential Rate Schedule is available to any consumer for domestic purpose only. Monthly service charge: \$3.50 per month First 1,000 kilowatt hours per month Excess kilowatt hours per month	5.00¢/kwh 4.40¢/kwh
Small General Service	Small General Service is available to any customer for single or three phase service supplied through one meter, where no more than two monthly 15 minute demands of 20 kilowatts or more shall have occurred in the previous twelve months. Monthly service charge: \$4.00 per month. First 1,000 kilowatt hours per month Next 1,000 kilowatt hours per month Excess kilowatt hours per month	6.18¢/kwh 5.46¢/kwh 5.25¢/kwh
Large General Service	Large General Service is available to any customer where two or more monthly 15 minute demands over the previous twelve month period shall have been 20 kilowatts or more. Demand - Maximum 15 minute demand during the billing period, but not less than 75% of the highest demand occurring during the preceding eleven months. Minimum - Demand Billing, but not less than for 20 kilowatts per month, or 75% of highest 15 minute demand recorded in the preceding eleven months, whichever is the greater.  Demand Charge: All kilowatts \$4.00 per month. Energy Charge First 20,000 kilowatt hours per month Excess kilowatt hours per month	3.71¢/kwh 3.51¢/kwh
Nonprofit Organizations	Certified nonprofit organizations; churches, service clubs, etc., will be billed for electrical service under the Small General Service or Large General Service. User classification will be determined by usage criteria.	

Osage Municipal Utilities  
A Component Unit of the City of Osage  
Information Required by the Bond Resolution  
Unaudited

December 31, 2005

2005 Payments	\$ 540,753	
2005 Net Revenues Light and Power*	\$ 953,595	
Ratio of Debt to Net Revenues		56.7%

December 31, 2004

2004 Payments	\$ 542,100	
2004 Net Revenues Light and Power*	\$ 988,732	
Ratio of Debt to Net Revenues		54.8%

December 31, 2003

2003 Payments	\$ 537,837	
2003 Net Revenues Light and Power*	\$ 940,535	
Ratio of Debt to Net Revenues		57.2%

December 31, 2002

2002 Payments	\$ 538,037	
2002 Net Revenues Light and Power*	\$ 731,489	
Ratio of Debt to Net Revenues		73.6%

December 31, 2001

2001 Payments	\$ 320,435	
2001 Net Revenues Light and Power*	\$ 606,525	
Ratio of Debt to Net Revenues		52.8%

\* As defined by bond resolution, net revenues consist of operating income, excluding depreciation and amortization.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Information Required by the Bond Resolution  
Unaudited

December 31, 2005

	Reserve for Debt Service	Reserve for Sinking Fund	Reserve for System Improvement	Total
Balance, Beginning of Year	\$ 215,000	\$ 148,022	\$ 100,000	\$ 463,022
Deposits	331,025	-	-	331,025
Withdrawals	-	(33,147)	-	(33,147)
Balance, End of Year	<u>\$ 546,025</u>	<u>\$ 114,875</u>	<u>\$ 100,000</u>	<u>\$ 760,900</u>

See accompanying independent auditors' report.



# **L**INES MURPHY & COMPANY, P.L.C.

**M** Certified Public Accountants  
625 Main St.  
Osage, IA 50461-1307

Ph. 641-732-5841  
Fax 641-732-5193

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance  
and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with Government Auditing  
Standards

To the Board of Trustees Osage Municipal Utilities  
A Component Unit of the City of Osage

We have audited the component unit financial statements of the Osage Municipal Utilities as of and for the years ended December 31, 2005 and 2004, and have issued our report thereon dated January 23, 2006. Our report expressed an unqualified opinion on the component unit financial statements which were prepared in conformity with U.S. generally accepted accounting principles. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Osage Municipal Utilities' internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the component unit financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Osage Municipal Utilities' ability to record, process, summarize and report financial data consistent with the assertions of management in the component unit financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the component unit financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-05 is a material weakness.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Osage Municipal Utilities' component unit financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of component unit financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part III of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended December 31, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the component unit financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and customers of the Osage Municipal Utilities and other parties to whom the Utilities may report. However, this report is a matter of public record and its distribution is not limited. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Osage Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Lines Murphy & Company, P.L.C.  
Osage, Iowa  
January 23, 2006

Osage Municipal Utilities  
A Component Unit of the City of Osage

Schedule of Findings

Year ended December 31, 2005

**Part I: Summary of the Independent Auditors' Results:**

- (a) An unqualified opinion was issued on the component unit financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the component unit financial statements, including a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the component unit financial statements.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Schedule of Findings

Year ended December 31, 2005

**Part II: Findings Related to the Component Unit Financial Statements:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITIONS:**

II-A-05 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that each of the office personnel has control over several incompatible office and accounting functions.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the Osage Municipal Utilities should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

Osage Municipal Utilities  
A Component Unit of the City of Osage

Schedule of Findings

Year ended December 31, 2005

**Part III: Other Findings Related to Statutory Reporting:**

- III-A-05 Official Depositories – A resolution naming official depositories has been approved by the Board of Trustees. The maximum deposit amounts stated in the resolution were not exceeded during the year ended December 31, 2005.
- III-B-05 Certified Budget – Disbursements during the year ended December 31, 2005, did not exceed the amounts budgeted.
- III-C-05 Questionable Expenditures – No expenditures that we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- III-D-05 Travel Expenses – No expenditures of the Utilities' money for travel expenses of spouses of the Utilities' officials or employees were noted.
- III-E-05 Business Transactions – No business transactions between the Osage Municipal Utilities and its officials or employees were noted.
- III-F-05 Bond Coverage – Surety bond coverage of the Utilities' officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- III-G-05 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not.
- III-H-05 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the Utilities' investment policy were noted. However, we noted a former Trustee still named on the authorized signature cards.
- Recommendation – The Utilities should remove the former Trustee from all authorized signature cards.
- Response – We will remove the Trustee from all authorized signature cards.
- Conclusion – Response accepted.
- III-I-05 Revenue Bonds – The Utilities has properly established the reserves for sinking fund, debt service and system improvement required by the Electric Revenue Bond resolution.
- III-J-05 Telecommunication Services – No instances of non-compliance with Chapter 388.10 of the Code of Iowa were noted.

## **Other Supplementary Information**

**Osage Municipal Utilities**  
**A Component Unit of the City of Osage**

## **Required Supplementary Information**



**Enterprise Fund Financial Statements**